



## DEMONEZATION AND ITS IMPACT ON COMMON PEOPLE AND THE ECONOMY

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### ABSTRACT

Demonetization of currency is a radical monetary step in which a currency units status as a legal tender is declared invalid. In November 2016, the government of India has taken a bold step to demonetize Rs. 500 and Rs. 1000 currency notes which are the two biggest denominated notes accounted for nearly 80 percent of the currency supply. In India demonetization move has been taken to unearth black money, to trace fake currency, to transform Indian economy into cashless economy, to control terror funding and so on. This decision taken by the government is for welfare of the nation, but so many questions comes in mind that, what will be the short term and long term impact of this decision on Indian economy? What is the impact of this decision on common people? Would the Indian economy be prosperous or would be poor and so on.

**Against this backdrop the present study is being proposed with following objectives –**

1. To study the impact of demonetization on common people.
2. To study the positive and negative impact of demonetization on the economy.
3. To know the impact of demonetization on digital transaction.

**Methodology:** The paper is mainly based on secondary data. Secondary data is collected from internet, journals, articles, newspapers, magazines etc. However the observation of the researcher is also applied especially to study the impact of demonetization on common people.

**KEYWORDS :** Demonetization, digital transaction, cashless economy, common people

### Introduction:

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. In November 2016, the Govt. of India has taken a bold step to demonetize Rupees 500 and Rupees 1000 currency notes which are the two biggest denominated notes accounted for nearly 80 percent of the currency supply. There are many reasons of demonetization like resisting inflation, resist corruption and black money etc. In India, demonetization move has been taken to unearth black money, to trace fake currency, to transform Indian economy into cash less economy, to control terror funding and so on. This decision taken by the government is for the welfare of the nation, but so many questions comes in mind that, what will be the short term and long term impact of this decision on Indian economy? What is the impact of this decision on common people? Would the Indian economy be prosperous or would be poor and so on. Against this backdrop the present study entitled "Demonetization and its impact on common people and the economy" is formulated.

### Objectives of the Study:

- To study the impact of demonetization on common people.
- To study the positive and negative impact of demonetization on the economy.
- To know the impact of demonetization on digital transaction.

### Literature Review:

Geeta Rani (Nov. 2016) studied the effect of demonetization over the retail outlets by taking primary data. The study revealed that from 9<sup>th</sup> Nov. to 10<sup>th</sup> Dec. 2016 there was 20 percent increase in sales due to accepting old notes. But after that sales had declined. Shopkeepers started paytm and cheque system. Shopkeepers had extended credit period. The study identifies the effect of demonetization category wise. Sales of snacks, biscuits, juice/fruit drinks etc decreased by 20 percent, chocolate sale decreased by 50 percent, mobile phone sale decreased by 70 percent, sales of gold increased by 70 percent and so on. The study concludes that demonetization is painful in the short run, but it will surely beneficial for long run.

Mr. Brijesh Singh and Dr. N. Babitha Trimmaiah (January 2017) in their research paper studied the effect of demonetization in terms of "Won or Lost". By using the secondary data method i.e. articles, they had conducted their study. In the study report they had tried to explain the concept of cashless economy by taking the reference of

Woodford (2003). It is not all about how much money you are having in your wallet, you can pay any of the bank card or banking transfer. In the research paper they had show the effect of demonetization in the areas like, cash rush, stock market, transportation, agriculture, banking, business, income tax, railways etc. There are no exact proofs of exact black money holding in cash but studies show that around 8% of black money is held in cash. According to CMIE, the transaction cost of demonetization until 30<sup>th</sup> December, 2016 is estimated around Rs. 1.28 crore. As per R. Gandhi, Deputy Governor of RBI, speaking on 7<sup>th</sup> December 2016, Rs. 11.5 lakh crore has been already deposited at bank out of total 14.5 lakh crore which means still 3 lakh crore are unidentified.

Lokesh Uke (Feb. 2017) in his study said that demonetization in India is a great effort taken by Indian Government to combat with black money and corruption. Government has become successful in this regard to some extent. Amount of cash liquidity increased in the bank day by day. In future banks will be able to do more and more loans to the individual and to industrial sectors so that production, employment and income can generate at fast rate. However demonetization has created many hardship to the people of India. Several business disrupted due to lack of liquidity. Indian financial market, real estate market, FMCG sector, auto sector all are declined for a short time. The study also opined that the positive impact of demonetization will be showed in future.

### Methodology:

The paper is mainly based on secondary data. Secondary data are collected from internet, journals, articles, news papers, magazines etc. However, the observation of the researcher is also applied especially to study the impact of demonetization on common people. Common people here mean the people in general which includes the petty shopkeepers, service holders in private and public sectors, self employed persons, cultivators, students etc.

### Impact of demonetization on common people

Demonetization is one of the most memorable economic event of present time. Its impact is felt by every Indian citizen. It is observed that demonetization of Rs. 500 and Rs. 1000 notes have some serious impact on the common people.

There was huge hue and cry for demonetization as people had to wait in long queues in the bank to exchange their old currencies or to deposit the old currency notes in the bank. Again there was long

queues before ATM just to withdraw the necessary money needed by the people. There was limit to the per capita withdrawal and that was big issue for many people because of their personal problem which include marriage, health, property etc. Some people have to face great difficulties in making arrangement for wedding and other special occasions and even some weddings were to be postponed due to lack of money.

In rural areas some people like daily wage earner and some cultivators could not have access to bank or post office had seemed panicking for exchanging old notes. It was observed that in rural areas some people, especially women hoard money at home for the sake of saving, but after demonetization move they deposited their money in the bank or they opened account to deposit money. Many daily wage workers are unable to find work due to lack of cash with the employers. The street vendors and petty shopkeepers' business are based on cash. They sale product for cash and buy product with cash. People have to cut back spending because banks are rationing cash which adversely affect the business of shopkeepers and vendors.

Since Indian economic system mainly function on cash and so less cash means disruption in economic activities. Therefore, government step to curb black money and counterfeit currency has hit hard the common people. But as time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation.

Thus the study observed the following immediate impact of demonetization on common people—

1. Due to currency crunch the consumption level of people decreased.
2. People faced problem while withdrawing/depositing cash from the bank/ ATM.
3. Another major problem faced by people was unavailability of cash at banks and ATMs followed by ATMs closed.
4. Long queues and waiting hours before banks and ATMs.
5. Mismanagement in banks and lack of cooperation by the bank staff.

#### Impact of demonetization on the economy:

**1. Effect on gross domestic product:** The growth of GDP have been impacted primarily by the liquidity shock i.e. limited access to currency as a medium of exchange for effecting transaction in the economy. The adverse effect on the growth of GDP have worked through decline in demand due to shortage of cash to make payment and disruption in production activity due to man hour lost as some workers, especially those in unorganized sector who get their wages paid in cash. India is traditionally a cash driven economy. According to an estimate, about 78 percent of all consumer payment in India are effected in cash. It was therefore obvious that currency shortage during demonetization period had some adverse impact on economic activity and economic growth. GDP growth estimate by some agencies in pre-demonetization and post-demonetization for the year 2016-17 and 2017-18 is shown in table 1.

**Table-1: GDP Growth Estimate by some Agencies**

Agencies	2016-2017		2017-2018	
	Pre-Demonetization	Post-Demonetization	Pre-Demonetization	Post-Demonetization
IMF	7.6	6.6	7.6	7.2
World Bank	7.6	7.0	7.7	7.6
ADB	7.4	7.0	7.8	7.8
Economic, Survey Govt. of India	7.0-7.75	6.5-6.75		6.75-7.5

Source: PHD Research Bureau

The above table clearly indicates that all the agencies reduced the growth estimate of India in post-demonetization period in comparison to pre-demonetization period for 2016-17 and 2017-18.

**2. Impact on financial sector:** Demonetization has its impact on the financial sector. It has proven a bonanza for banks. To replace Rs. 500 and Rs. 1000 note bank deposit has increased and those who didn't have a bank account has to open account. According to India Today report, for a sector saddled with Rs. 8 lakh crore worth of bad loan, this was a blessing. Due to demonetization liquidity in the banking system improved and internet rates have softened. However, such increase in liquidity in the bank was an unintended consequence of demonetization and is temporary. Demonetization has significant impact upon Pradhan Mantri Jan Dhan Account. Post-demonetization 23.3 million new accounts were opened under Pradhan Mantri Jan Dhan Yojana (PMJDY), bulk of which (80 percent) were with public sector. Of the new Jan Dhan Accounts opened 53.6 percent were in urban areas and 46.4 percent in rural areas.

**Table-2 : Deposits under PMJDY: Number of Accounts (In million)**

Bank Group	As on Nov. 9, 2016			As on March 1, 2017			Variation		
	Rural	Urban	Total	Rural	Urban	Total	March 1, 2017 over Nov. 9, 2016		
Public Sector Bank	114.3	89.3	203.6	122.1	100.8	222.9	7.8 (6.8)	11.5 (12.9)	19.3 (9.5)
Regional Rural Bank	37.1	6.0	43.1	40.3	6.4	46.4	2.9 (7.8)	0.4 (6.8)	3.3 (7.7)
Private Sector Bank	5.3	3.1	8.4	5.4	3.6	9.0	0.1 (1.3)	0.5 (16.8)	0.6 (7.0)
Scheduled Commercial Bank	156.7	98.4	255.1	167.5	110.9	278.4	10.8 (6.9)	12.5 (12.7)	23.3 (9.1)

**Note:** Figure in the parenthesis are percentage variation

Source: Pradhan Mantri Jan Dhan Yojana website.

Deposit under PMJDY reveals that number of accounts and amount of deposit rise in the short term after demonetization. It is difficult to assume that such savings will sustain for long term. These savings are made just to convert the old notes into new notes. They are converted to active liquidity by the savers when full fledged new currency supply took place. This means that new savings in the bank as reflected by PMJDY are only short term deposit.

**3. Impact on Black Money and Hawala:** An important objective of demonetization was to fight black money. However, only a small portion of black money is actually stored in the form of cash. Usually black money is kept in the form of physical assets like land, building, gold etc. However the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash. According to India Today report with rupees 15.4 lakh crore (99 percent of demonetize currency) back in the system, therefore, the amount of black money countered by demonetization was less than expected. According to India Today report illegal hawala transaction dropped by 50 percent following demonetization. According to same report, one of the hawala operator in Mumbai has destroyed currency notes worth about Rs. 500 crores. This is a positive impact.

4. Tax Compliance: Demonetization led to increasing tax compliance. According to India Today report Income Tax returns filer increased from 6.7 million in 2015-16 to 8.4 million in 2016-17 which indicates 27 percent increase. Tax revenue to central government rose 18 percent to Rs. 17.1 lakh crore the year ended 31st March 2017. Excise duty collection rose 33.9 percent and service tax collection rose 20.2 percent. This increase took place despite GDP growth slowing down which is a positive result.

5. Impact on Real Sector: According to some analyst, the real estate sector was under pressure and demonetization has compounded its problem. Real sector is an industry that made the most use of black money. Some estimate suggested that as much as 30 percent of all transactions in the Rs. 6.5 Lakh crore sector (2014 estimate) was carried out using money that was unaccounted for. Demonetization move curtail the flow of black money into the real sector. The impact is an unexpected dip in land and property prices. What is worrying is that property price is falling but there has been no corresponding increase in demand.

6. Effect on Terror Funding: Terror financing is sourced through counterfeit currency and hawala transaction. Demonetization move has impeded terror financing by affecting counterfeit currency and hawala transaction. The four month long unrest in Kashmir valley is on a back burner due to demonetization. No stone pelting on security forces has been reported in Kashmir ever since the demonetization announcement was made. An intelligence estimate suggest that Pakistan send Rs. 1000 crore annually to the separatist for fuelling unrest in Kashmir. The money is transferred through hawala. With hawala transactions completely choked up, the separatist are now clueless. It won't be wrong to say that Modi completely shattered the Kashmir unrest with his stone called demonetization.

**Impact of demonetization on Digital Transaction:**

An important objective of demonetization was to transform Indian economy into cashless economy which is possible only by digital transaction. Digital transaction have grown post-demonetization period. According to RBI data digital transaction have increased in volume and value after demonetization from wallets to cards and internets transfer from a year earlier. Card transactions at Point of Sale (POS) terminals at merchant location have surged, reflecting a positive for the economy as more people start using their debit cards for payment rather than for withdrawing cash at ATM.

**Table 3: Volume of Transaction of Debit Cards, IMPS and PPIs.**

Volume of Transaction (in Million)						
	2016			2017		
	Jan	Feb	March	Jan	Feb	March
Debit Cards	817.51	796.69	844.59	1040.97	944.32	981.28
IMPS	22.48	23.86	25.98	62.42	59.75	67.41
PPIs	65.25	65.37	72	295.8	280.02	342.09

**Source: RBI**

The table indicates that Immediate Payment Service (IMPS) network of National Payment Corporation of India (NPCI) has increased after demonetization. IMPS has seen a 160 percent jump with 67 million transaction in March 2017 against 26 million a year earlier. PPIs reported an average 350 percent jump in transaction in the January-March 2017 period from the year earlier. In March, transaction from PPIs stood at 342 million, up 375 percent from 72 million a year earlier (The Economic Times, 27th May, 2017).

According to figure available from National Payment Corporation of India (NPCI) digital transaction hit a high of Rs. 149 lakh crore in March 2017 up from Rs. 94 lakh crore in November 2016 again which slightly fall to Rs. 124 lakh crore in September 2017. According to RBI report volumes and value of transaction of mobile wallets initially surged from 99.57 million and Rs. 3,885 crore in October, 2016 to

261.67 million and Rs. 8,353 crore by March, 2017. However, volumes and the value of transaction declined to 225.43 million and Rs. 7,262 crore by August 2017.

POS also increased after demonetization. According to SBI report, volume of POS terminals surge from 3.6 lakh in September 2016 to 6.42 lakh in September 2017, number of transactions rising from 7.05 lakh to 20.92 lakh in the same period.

According to the Chairman, Payment Council of India, the growth rate of digital payments industry which was earlier in the rough of 20-50 percent has accelerated post demonetization to 40-70 percent. (The Indian Express)

**Findings:**

1. Common people are effected by demonetization basically due to currency crunch. Consumption level of the people decreased. There were long queues and waiting hours before ATMs and banks for withdrawal and deposit. But as time passed the things settled down.
2. The growth rate of GDP has fallen or likely to fall as revealed by the estimate of different agencies, mainly because of liquidity shock, fall in consumption and disruption in production activities.
3. Demonetization has proven a bonanza for banks. The liquidity position of the banking system improved and interest rate softened. But the increase in deposit and liquidity in the bank was an unintended consequence of demonetization and in temporary.
4. The amount of black money countered by demonetization was less than expected because only a small portion of black money is actually stored in the form of cash. However, hawala transaction dropped by 50 percent after demonetization.
5. Demonetization led to increase in tax compliances as income tax return increased and excise duty collection and service tax collection rose in post-demonetization period.
6. Real sector was hit hard by demonetization as it is the sector which made most use of black money. Demonetization curtail the flow of black money into real sector. Consequently there is unexpected fall of land and property price.
7. Digital transaction have increased in volume and value after demonetization from wallets to cash and interbank transfer.

**Conclusion:**

Demonetization is a step of many steps in fighting black money and corruption and promote cashless transaction. It is a bold decision taken by government. To some extent Govt. was successful in achieving its objectives. However, preparation for demonetization was not upto the mark and its impacts was terribly felt by the common people. All the difficulties faced by common man could have been avoided if Govt. had made planned preparation to meet consequences of demonetization. Demonetization had both positive and negative impact on the economy. GDP growth rate has fallen in the short run due to liquidity shock and fall in the level of consumption. However, liquidity position of the banks improved after demonetization although it is a short run phenomenon. Demonetization has adversely effected the real estate sector and impeded terror financing and hawala transaction. A very positive implication for the economy is that digital transaction increased in volume and value after demonetization.

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